Operator: Greetings and welcome to the Graham Corporation Third Quarter Fiscal Year 2012 Quarterly Results Conference Call. At this time, all participants are in listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations for Graham Corporation. Thank you, Ms. Pawlowski, you may now begin.

Deborah Pawlowski: Thank you, Shea, and good morning everyone, we appreciate your time here today with the Graham Corporation Third Quarter Fiscal Year 2012 Conference Call. On the call with me, I have Jim Lines, President and CEO, and Jeff Glajch, Chief Financial Officer. Jim and Jeff will be reviewing the results of the quarter and also providing a review of the Company's strategy and outlook. There are slides on the Company website that accompany the conversation today. If you don't have them, you can find them at graham-mfg.com.

As you may be aware, we may make some forward-looking statements during this discussion, as well as during the Q&A. These statements apply to future events and are subject to risks and uncertainties, as well as other factors, which could cause actual results to differ materially from what was stated here today. These risks and uncertainties and other factors are provided in the earnings release, as well as other documents, filed by the Company with the Securities and Exchange Commission. These documents can be found at the Company's website or at sec.gov.

So with that, let me turn it over to Jim to begin the discussion. Jim?

Jim Lines: Thank you, Debbie. Good morning, everyone, and we appreciate your time today.

Please turn your attention to Slide 4. I feel we had a solid quarter, with revenue expanding year-on-year 27% to $24.3 million. Organic sales are up 13%. Energy Steel represented 14% of total sales. One of the indicators to the market direction for us is our organic short cycle sales, and we have seen that segment of our business improving year-on-year. It's up 25% in revenue, while also providing expanded margins due to price strategies we implemented earlier in the year. The power market as a whole expanded about $2 million year-on-year. In the petrochemical market, we're continuing to see good activity, primarily on the order intake side. Sales to the refining market were flat in the quarter. Our geographic sales mix was 57% domestic, 43% international.

Please turn to Slide 5. Margin was in line with expectation for the third quarter. Gross margin came in at 27%, and EBITDA margin at 13%. Organic production volume, as measured in total labor hours, was up 15%. Here, too, we believe this is an indication that our markets are improving. It's one of our leading indicators to the direction our markets are moving. We're also nearing the end of producing a couple of large Middle Eastern refining projects, and that did have an effect on sequential gross margin.

Please turn to Slide 6. Our strategy to diversify has had a positive impact. Our second quarter was a clear indication of what this can mean. As our traditional refining and petrochemical markets gain momentum, coupled with the growth from power generation markets and our work for the U.S. Navy, we anticipate stronger growth this coming expansion cycle than we enjoyed the last cycle. We also feel, going forward, our geographic sales mix will be roughly 50-50 domestic and international.

Slide 7… We do have a solid pipeline of good quality opportunities. Order growth was 23% year-on-year, driven primarily by our strategy to be in the power market, principally Energy Steel's win for new construction at two U.S. nuclear energy facilities. New orders in the quarter were $21.9 million. Energy Steel provided just under $10 million. With the organic business, order rate was down 28%, to $12 million. While that was disappointing, we do believe that's partly due to timing. Several orders for Asian applications that we were expecting to close during the quarter moved out of the quarter. To be candid, we actually thought a few of those orders would close in the second quarter, but as we've communicated on several calls, it's been difficult to predict when orders will close. We do expect these orders to finally close in the fourth quarter.

Also in the quarter, we did face stiff competition from South Korean competitors that took a few orders from us. To be direct, they were at price levels that were unsatisfactory for us, and coming out of a downturn into recovery, it's not a time to be anxious and make decisions to take business off the street or load the business with inferior profitable orders. It's tough to lose these orders at this point in time, but I do feel they were the right decisions to make at this point in the recovery.

The power market continues to be strong. The order level from the power market was just under $11 million. We had a terrific win for AP1000 new nuclear energy facilities being built in the U.S. Chem and petrochem markets provided just under $5 million in new orders. Oil refining was down, year-on-year. Here, too, I do feel that's timing. Several of the orders pushed out of this recent quarter into the fourth quarter that we hope to close in the fourth quarter are for the refining sector.

Our outlook is very strong. We see our pipeline continuing to expand with opportunities. It's a fairly diverse pipeline going across refining, petrochem and power generation. Within power generation, nuclear and renewable energy, such as biomass energy, geothermal, etc., are both areas where we have a very strong brand. While near-term order levels may vary, our conviction to the long term remains very strong.

On Slide 8, just to provide some color on our key markets… For the oil refining and petrochemical markets, we believe we are in the early stages of the next wave of investment to expand capacity. As I've said on prior calls, it feels to the sales management that we're at a point today where we were in 2003 and 2004, in the early stages of the next wave of substantial investment in this particular segment of our business.

In Asia, we're seeing a lot of activity for new refining capacity, petrochemical capacity and fertilizer additions throughout the region. In the Middle East, we're wrapping up a few large projects for Saudi Arabia and there are others in the pipeline of similar magnitude. In particular, the Ras Tanura and Jazan refining projects are both 400,000 barrel per day projects like the ones we won a few years back. Also, throughout the rest of the Middle East - in Kuwait, Qatar, and the UAE - a lot of activity is starting to percolate. We're feeling very good about that.

In North America, we're seeing oil sands activity, new extraction capacity as well as upgrading capacity. Both aspects of oil sands drive demand for our products. In the U.S. refining space, we're seeing investments being made. We've won a few orders this last quarter for smaller refinery revamps to expand capacity and to enable the refiner to diversify its feed stock. Also, with the shale gas activity and the current price of natural gas, we're seeing investments being planned in the U.S. for new petrochem capacity, revamping idle capacity and investment in fertilizing capacity, something we haven't seen in about a decade. That's very exciting for us because those are types of projects that we have a high probability of winning. It's right in our wheelhouse, and those projects cover all of our products, our vacuum systems, our condensers, our heat transfer products, etc. We're feeling very encouraged about the direction of the U.S. petrochem market.

Also, in South America, we are aware of very large multi-year investment plans in Colombia, Brazil, and Venezuela, again, areas where Graham has an extraordinarily strong brand.

In power generation, our strategy to move into the power gen market is on the mark. It's delivering benefit to us very early. In the nuclear energy area, we've won our first order for new build activity in the U.S. and our team has identified opportunities in the new build area outside of the U.S. We're also working with our team in Lapeer, Michigan, to expand our addressable opportunities for the existing U.S. facilities, so that's been a terrific acquisition. It's integrated very well and we're very excited about the top-line growth that we see there over a multiple year period.

Also in renewable energy, biomass energy is still active in North America, and geothermal in Latin America, Southeast Asia, and to a smaller extent, in North America is still active. The Naval nuclear propulsion program was another one of our diversification strategies during this downturn. The carrier program order that we have in house, that we won about two years back, is progressing very well. There's additional work on that carrier that we will be bidding and hope to secure in the coming years. We're also continuing to make progress with the submarine program to become a consistent supplier. That's a long process, but it's moving along very well. Other markets that we serve - edible oils, general industrial, HVAC - are very active, as well.

Another nice leading indicator that suggests the health of our markets is improving is the aftermarket, and the demand we're seeing there has picked up quite a bit. When we compare the first three quarters of fiscal 2011 to the current three quarters of fiscal 2012, orders are up 33%, as are margins in that segment. And the aftermarket spans all of our markets - refining, petrochem, edible oils, and general industrial - so we're seeing a nice lift there.

We are narrowing our guidance and outlook for fiscal 2012. Full-year expectation for revenue is $105 to $108 million, with Energy Steel providing 16% to 20% of that total revenue. Organic growth rate is expected to be 25% to 30%. Gross margin expectation for the full year is 32% to 33%. Full year SG&A, about 15% of sales, and the effective tax rate remains approximately 34%.

Slide 12 - Our priorities and challenges as we go forward… We view fiscal 2012 and fiscal 2013 as positioning years for the market recovery. We've taken direct action to prepare our business with the strong wave of work that we're expecting to come in the coming quarters and in the coming years. I don't feel our business was fully prepared in our past to take advantage of a strong recovery cycle. We will be better prepared this time. We're making investments in personnel and in process improvement. Our capital plan is paying dividends, and we will be ready to capture greater market share and expand more rapidly in this coming cycle. We also plan to advance our market share in oil refining and petrochemical markets in Asia. We have a healthy share there, but I believe there's more that we can do and there's more that we can capitalize on in that region. We also intend to maintain our strong brand and our strong market share throughout the Middle East, and continue to dominate the North American markets.

We'll focus with our team at Energy Steel in Lapeer to exploit the synergies of Batavia and Lapeer's capabilities, extend our addressable opportunities within the existing U.S. plants, capitalize on new construction in the U.S. and international markets, and continue to develop our Naval propulsion program sales strategy, which, as I said, is moving along very well. We are at a point where our balance sheet is in very good shape. We have positive operating cash flow, and we're actively seeking additional acquisitions to diversify and expand our revenue growth and profitability. We also expect to be building backlog as we move into subsequent quarters. We do expect order rates to vary somewhat, but we're quite convinced and we have the strong conviction that our very healthy pipeline will convert to orders in the coming quarters.

I'll turn this over to Jeff now for greater detail on Q3. Jeff?

Jeff Glajch: Thank you, Jim, and good morning, everyone. As Jim mentioned, we had a good third quarter. Q3 sales were $24.3 million, up 27% from last year. Half of that growth was organic and half of that growth was Energy Steel. And just to clarify, we purchased Energy Steel late in the third quarter of last year, so the comparable results for last year have a very limited amount of Energy Steel in them in the third quarter.

Sales for the quarter were 57% domestic and 43% international. When you compare that with last year, last year had 36% domestic sales and 64% international. If you look at Graham's historical commercial markets, they do continue to be tilted toward the international arena, whereas Energy Steel is almost exclusively domestic, and the U.S. Navy-related work, of course, is also 100% domestic; therefore, looking forward, we think a 50-50 mix is probably in the right range.

EBITDA margin is up slightly to 13% compared with 12% last year. That 12% - and I will speak to this not only on the EBITDA, but on other earnings-related issues - backs out the acquisition-related costs that we incurred in the third quarter last year, so the comparables will be slightly different than what's reported, but from an intellectual integrity standpoint, we want to make sure you're looking at apples and apples. So again, 13% versus 12% last year.

Earnings per share were $1.6 million in the third quarter, up from $1.3 million, or $0.13 a share, last year. For the first nine months of fiscal 2012, sales were $82.9 million, up from $48.3 million last year. Organic growth was 44%, or a $20.9 million increase, and Energy Steel contributed an increase of $13.8 million.

EBITDA in the first nine months of the year was $17 million, or an EBITDA margin of 21%, and we do have the EBITDA reconciliation information in the backup slides. This is up from $6.4 million, or 13%, in the first nine months of last year.

Finally, net income in the first nine months of the fiscal year was $10.1 million, or $1.01 per share, up from $3.7 million, or $0.37 a share.

On to the next slide… Gross margin in the third quarter was 26.6%, up from 24.7% in the same quarter last year, but, as expected, down sequentially from 38.1% last quarter. SG&A in the third quarter was $3.8 million, up from $2.9 million in last year's third quarter. The increase came from both investments in our organic business, as well as the addition of Energy Steel. Operating margin was 10.9% in the third quarter, up from 9.5% in last year's third quarter.

If you move to Slide 16, you can see our cash position remains strong at $44.5 million, up slightly from $43.1 million at the end of the last fiscal year. What I think is important is to look at the last quarter. As we talked about on the last call, we had a cash usage in the first half of fiscal 2012, primarily related to the timing of some projects, as well as, obviously, outgoing spending around capital. We turned that around and then some in this last quarter and our cash position increased nearly $7 million in the third quarter. We expect going-forward to continue to generate cash. We believe we are well positioned to utilize this cash and, if necessary, our on tap line of credit for future acquisition activities, as well as internal growth opportunities.

On the acquisition side, we would be quite happy to find another company of the caliber of Energy Steel. As Jim mentioned, we continue to be pleased with Energy Steel, the expansion of their addressable market opportunities, their financial performance, the strength of the management team, and its nice fit within Graham. In addition to the team that's in place, we have been enhancing the management team with new additions to prepare for future growth.

On to Slide 17… Backlog at the end of December was $72.6 million, down from $75.1 million at the end of September, and $91.1 million at the end of March. We haven't quite seen the booked-to-billed ratio make it to 1.0, but we were at 0.9 in the third quarter, so we are getting closer. And as Jim mentioned, we do expect to see that moving above 1.0 sometime in the next few quarters.

Slide 18... Orders in the third quarter were $21.9 million, up from $17.8 million in the third quarter last year. In the first nine months of fiscal 2012, orders were $64.4 million, up from $38.4 million in the first three quarters last year, and actually slightly above the total for the full 12 months of fiscal 2011, which was $63.2 million. In the quarter, strong order levels from Energy Steel of $9.7 million offset lower order levels from our traditional markets.

Finally, on Slide 19… Just to reiterate Jim's comments, for the full fiscal year, we expect revenue to be between $105 and $108 million, growth rate of over 40%. Of this increase, organic growth is expected to be 25% to 30%, with the full year impact of Energy Steel adding the rest. Gross margins for the full year are expected between 32% and 33%, SG&A expected to be approximately 15% of sales, and the tax rate at approximately 34%. We also expect for the full year to spend between $3.0 and $3.5 million dollars in capital, and we've spent a large portion of that in the first three quarters.

I'd like to thank you for your time and interest in Graham today, and we'll open the lines now for questions. Thank you.

Operator: Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from Tien San Lucas from Brasada Capital Management.

Gabriel Birdsall: Hi, it's actually Gabe for Tien. How are you?

Jeff Glajch: Doing well. How are you?

Gabriel Birdsall: Real good. Thank you for your time. Just a few questions. Can you help us understand the size of the orders that were pushed out this quarter?

Jim Lines: Sure, that was between $5 and $10 million. And that was across three or four projects.

Gabriel Birdsall: Excellent, thank you. And regarding the cash, is 100% of that available or does any of that include advance payments from customers?

Jeff Glajch: No, 100% of that is available. The advance payments, which had spiked about two years ago, have been consistently coming down and are now at a more normalized level.

Gabriel Birdsall: Excellent. And is there anything in particular in the third quarter that's seasonal from a cost standpoint? Can you remind us there?

Jeff Glajch: No, nothing in particular, no.

Gabriel Birdsall: Okay. And the last question… On the backlog, on Slide 17, you have the Navy project that was booked in 2009. Do you expect 50% of that original Navy contract to be remaining at the end of fiscal 2012?

Jim Lines: No, at the end of fiscal 2012, there'll be nominally two-thirds of that project left.

Jeff Glajch: And the original size was greater than $25 million.

Gabriel Birdsall: Excellent. Any comments as we look out to fiscal 2013?

Jim Lines: I think the important takeaway that I would like to share, as I said in the earlier remarks, is, with the early stages of a recovery, it's difficult to predict the timing of orders, but what we can state with strong conviction is our pipeline is extraordinarily strong and more diverse than it was the last cycle, so we're very encouraged by that. And as we also look at some fundamental leading indicators of what actually has transpired over the last 12 months, we're seeing order development improve. For larger orders, it's up about 18% trailing 12 months versus the prior trailing 12 months. But equally important and indicative of the environment is the gross margin is superior in the trailing 12 months to the prior trailing 12 months, so we're seeing order development improve, as is margin. So that's a sign that things are getting better. Also, on the short cycle order side, we're seeing trailing 12 months up about 13% to 15% and, as well, having margin expansion. So those are clear signs that we think the worst is behind us, and the markets are just slow in their recovery, but our bidding activity is not slow. Nor was our bidding activity slow in 2003 and 2004 when we saw the wave of work coming. And so we're really excited, and if I were to pass on a comment from our sales management side, it's "get ready."

Gabriel Birdsall: We appreciate that color. I have one more question, if I can just throw it in there, please. In your comments on the petrochemical cycle, you said you haven't seen any projects like this in over a decade. So, it's safe to assume this would be new this cycle relative to your last one?

Jim Lines: The context of that comment related to the U.S.A. Globally, the market is in the early stages of recovery similar to the last recovery, but what's different this time, and beneficial to us, is we're expecting to see stronger investment in the U.S. this coming cycle than we saw the last cycle, because of the price of natural gas.

And just anecdotally, we have secured a couple orders now for investing in additional ethylene capacity for U.S. petrochem plants. And there are a number of those that are under consideration. So that's very encouraging to us, because the ethylene plant, to us, is the surrogate for the overall health of the petrochemical market. And as we see it, investments being made there primarily drive our surface condenser product line, but downstream of the ethylene plant, with ethylene as a feedstock to the rest of the petrochemical industry, that drives demand for all of our traditional products - condensers, ejectors, vacuum systems, heat transfer products, etc. We're very excited about what we're seeing there, and we just need to allow some time for that to play out, but we have secured a few orders already.

Gabriel Birdsall: Thank you very much for the color. Great job, guys. Thank you.

Jeff Glajch: You're welcome, Gabe.

Jim Lines: Thanks, Gabe.

Operator: Thank you. Our next question comes from Mark Tobin from Roth Capital Partners.

Mark Tobin: Hi Jim, Jeff. Thanks for taking my questions. First, on SG&A, I assume the $500,000 in transaction costs was included in that. In backing that out, it ticked down quite a bit sequentially. And in your guidance, it assumes that it does climb back up in Q4. Can you give us a feel for the dynamics on that line?

Jeff Glajch: Sure. Mark, this is Jeff. First off, the backing out of the $500,000 was in the third quarter of last year, fiscal 2011. So if you look at the second quarter and the third quarter this year, we did actually see the SG&A drop a little bit in the third quarter, and that's really just some timing, nothing out of the ordinary. And in the fourth quarter, if you look at our guidance, it would go up a little bit. Part of that is, as we're looking to add resources to prepare for the market expansion, that's where we're seeing some of those costs come in in the fourth quarter.

Mark Tobin: Okay. Understood. My mistake on that. You talked about the pipeline looking rosy. Can you give us some insight on the productive side as far as the things you're doing from a production capacity standpoint to prepare yourselves for this rebound?

Jim Lines: Sure. That's a great question. We took advantage of this downturn to continue to invest in our business. Our capital plan is still targeted on capacity and throughput improvement, focusing on productivity. Ideally, our strategies remain to get more out of our roofline and not having to expand our roofline to fulfill our growth objectives. We've had targeted investment in welding equipment, machining equipment to reduce lead time and improve throughput - and that's been paying off. That's been an ongoing program for the last four or five years.

With respect to our contract execution, we've been focusing on process improvement, again to get at lead time reduction and also to drive errors out of the process. That's an ongoing activity, but it's paying off, as well. And IT solutions to create scale and capacity have provided some benefit, as well. We've been focused on a number of fronts to help our employees be more successful and more productive in the work that they're doing, and that's had a big impact on our business. If we think about our Company, just to give a comparison, in 2004 and 2005, we were about a $40 million company, on the organic piece. In 2009, organically, we were a $100 million company with the same roofline. And if I think of where we are today in our productive capacity, I would state that that's more like $135 to $150 as we go into the next cycle. I think we've done a lot to address productivity and capacity here at Graham. And then, in addition to that, we've added diversity through focusing on the Navy, and our attention to the power sector with the addition of our team in Lapeer. It's a great story.

Mark Tobin: That's helpful. Thank you very much, I appreciate it.

Operator: Thank you. Once again, if you do have a question, please press star, one at this time. Our next question comes from Joe Mondillo with Sidoti and Company.

Joseph Mondillo: Good morning, everyone.

Jeff Glajch: Morning, Joe.

Jim Lines: Hi, Joe.

Joseph Mondillo: My first question is to just sort of try to get a better feel for what's going on. So, the last four quarters have been sort of flattish on a sales and orders basis, but it seems like, compared to three months ago, you guys are feeling a little more positive on the cycle, on the business. So, with orders and sales sort of flattish still, what are you seeing differently that makes you a little more optimistic? I know you said that the timing is tough, but when does this come into play, in terms of hitting the P&L or hitting your business?

Jim Lines: Well, the leading indicator there, Joe, is going to be bookings - and in quarterly order rates and backlog expansion. What we can only remark to is, qualitatively and quantitatively, the size and diversity of our potential bookings pipeline. It continues to look very good to us. We feel this is simply a matter of timing. What's really important is the discipline that we have to exercise in order selection. What would be wrong is to become too anxious and too nervous, to move too quickly to fill backlog when we could fill it with new orders that would undervalue our productive capacity. We're making, I believe, the right decisions on order selection and our margin appetite, while we give the bookings pipeline the chance to move forward to procurement. We think that will be in the next couple quarters. I'm not calling it Q4, but it's going to happen. We saw it happen in 2004/2005. The longer the downturn is, with underlying demand still expanding, which is happening, the wave of work will be that much higher, so we're really excited and we're making investments today, before demand comes, to be ready.

Joseph Mondillo: In terms of the actual projects around the world that you guys track and eventually hope to bid on, or are bidding on right now, how is that sort of trending when you look at all these projects around the world over the last couple quarters? Are you seeing any significant increase in projects?

Jim Lines: To a degree, certainly. We're also seeing, which is more important, the projects move through their ordinary sales stage from concept to feed, which is a more detailed engineering analysis; from feed to EPC bid; and then from EPC bid to contractor award and formal requisitions for purchase. So we're seeing things move directionally to the right toward procurement. That's what we want to see and that's what we see happening. We're seeing movement along the sales cycle, which is great, and we're also seeing additional projects come in to the pipeline, which is also very important.

Joseph Mondillo: Okay, and then, in terms of your oil refining business… It's actually down year-over-year, which was a little odd to me. If you could talk about that and then also… Oil drilling in the U.S. is as strong as it's been in 20 years, in terms of drilling. Do you foresee any opportunity there within the U.S. refining business, or is it just the oil reserves within the U.S., or just such a small percentage of overall U.S. demand that you're not going to see a huge significant upturn there?

Jim Lines: We're anticipating to see a very nice upturn there. We're not expecting it necessarily to be as strong as it was the last cycle. And we have to bear in mind, there was a huge investment in North American refining capacity the last cycle, which is coming onstream now. The market's absorbing that. There's a little bit of excess capacity. But bearing in mind that new refining capacity, whether it be a retrofit or revamp or expansion at an existing site, those construction cycles are two or three years. What they would start working on today will come on stream in calendar 2015. We're seeing that activity now, with some of the independent refiners in the U.S. Some of the large integrated refiners are looking at expansion projects. And equally important, we're seeing, again, work up in the oil sands that we hadn't seen in three years.

Joseph Mondillo: Okay. And then, a last question… In terms of pricing, what is your backlog in terms of the orders that you're receiving today? What does that margin look like compared with the margin that you're realizing on the P&L right now?

Jim Lines: Consistent with the last call that we had in October, if we reflected on Q1 and Q2 sales, backlog converted to the sales in those two quarters had superior margin to the average of the backlog. But we were winning new work that was also above the average margin of the backlog. So we have Q3 and Q4 to contend with, but we're adding to our backlog business at a superior margin to the average of the backlog. We have to get through the trough. We have to deal with the backlog that was won 8, 12, 15 months ago. What we're doing to address that margin headwind, again, is we're focused on productivity; we're focused on error reduction; we have very aggressive strategies to control our costs and actually improve margin after the order; and we've been realizing that margin improvement after the order through the steps that we've been taking, so I didn't want to sound as though we're held hostage to the margin that we've booked. We're actually taking action to improve that and we've been realizing the benefits there. But to answer your question, what we're winning in new business on average is at a higher margin than the average of the backlog.

Joseph Mondillo: Okay, so in terms of the backlog, right now, you realized 27% gross margin in this past quarter. I imagine that's from bookings from a year ago. Is your backlog and the orders that you're winning today considerably higher than that 300 basis points or higher than that?

Jim Lines: I'm not free to comment quantitatively. I could say, directionally, it's better.

Joseph Mondillo: Okay. All right. Thank you.

Jim Lines: You're welcome.

Operator: Thank you. Our next question comes from George Walsh from Gilford Securities.

George Walsh: Jim, is there any comment or any issues with the integration of Energy Steel, or is that pretty much done? And how are the margins out of that division comparing with your overall margins?

Jim Lines: Well, there are two questions there. The assimilation of Energy Steel, the team in Lapeer, into our team has gone extraordinarily well. A part of our due diligence was to assess the culture, the management team, and the operating practices to feel confident that it could assimilate into our business well. And there have not been any appreciable surprises, nothing that we didn't anticipate, so from that standpoint, it's gone extraordinarily well. I'm extremely pleased with that, and the credit goes to the Lapeer team and to our managers that have overseen the assimilation of Energy Steel into our team. Great job.

With respect to the margin, quite honestly, while gross margin and SG&A can be a little different, the operating margin is fairly similar to our overall business. It blends in quite well and it's not appreciably different.

George Walsh: Okay, are there things that you're still integrating in some of that overhead, with SG&A or anything else?

Jim Lines: With respect to our strategies to capitalize more fully on the power market, we will be making investments that will both hit COGS and SG&A, to capitalize on what we see as a strong growth opportunity in that market. Nothing dramatically different, but there will be some investments that hit COGS and SG&A.

George Walsh: Okay, and as you go forward and you talk about, which is a great story, the increase to the capacity there, you mentioned that $135 million. Would this cycle? Could you just review again your perception of how margins would change as you come to the better parts in this cycle?

Jim Lines: Sure. I think a real great quarter to look at was Q2. Q2 was about $33 million of revenue, 38% gross margin. It had the diversity we were looking for. Power was a very good percentage of our overall sales that quarter, with a good component from Navy, nice revenue from refining, also because it was a delayed conversion of backlog to revenue, pricing that was similar to the last peak. So that was indicative of where we thought margins will get to. We've indicated many times that, while we eclipsed 40% gross margin last cycle, we're going to work real hard to do that again. We feel upper thirties, similar to Q2, is an expectation for the next peak. We're not dismissing that we won't go above 40 - we know how to do that - but we think realistically and sustainably into the next growth cycle as we hit full stride in the recovery, that's what we're expecting, and that's what you should expect.

George Walsh: Okay. And now that you're including the Energy Steel and its full integration, et cetera…

Jeff Glajch: George, this is Jeff. Just a quick follow-along to what Jim said. If you look at the second quarter, and we certainly don't want to extrapolate anything, but I think if you just took that quarter and made a full year out of it, during a full recovery, what does that quarter look like? It had revenue for the historic Graham business annualized of about $105 million, revenue for Energy Steel annualized at just about $30 million, so you're kind of in the mid $130s from a revenue standpoint; again, gross margins of 38% and EBITDA margins in the mid-twenties. As Jim said, that's what we believe, in the middle of a full recovery, we can look like at that size, and also as Jim said, we have capacity of $135 to $150 million. That's in the base business. That does not include Energy Steel on top of that. We believe we have a great deal of available capacity in Energy Steel, so that $135 goal is certainly a nice target, but it's certainly not the peak we're looking for.

George Walsh: What is the capacity of Energy Steel? Is there a general number you have with that?

Jeff Glajch: We believe it's more than double, and if you look at where we are right now, we're running at an annualized rate in the high teens. We believe it's more than double what it is right now, so we think about $40-plus million is certainly not out of the question. Will we need to add some resources people-wise to get there? Absolutely, but it's really just giving us more capabilities in both the front office, as well as in the manufacturing facility, but the facility itself has a lot of runway.

George Walsh: Okay, that's great. Well, that's a great picture. Thank you very much.

Jeff Glajch: Thanks, George.

Jim Lines: Thanks, George.

Operator: Thank you. As a final reminder, if you do have a question, please press star, one at this time. Our next question is a follow-up from Joe Mondillo.

Joseph Mondillo: Hey guys, I just have one quick follow-up question. I don't have the numbers in front of me, but could you comment on how the Energy Steel sales have been trending over the last couple quarters, and could you give your updated outlook on the nuclear market overall in the U.S.?

Jeff Glajch: Sure, Joe. If you look at Energy Steel, they are, as we are, a bit lumpy. If you were to look at the calendar year, the fourth quarter of last fiscal year was around $5 million. The first quarter of this fiscal year, the quarter that ended in June, was around $4 million. The next quarter, the quarter that ended in September, was a little north of $7 million, and this quarter was around $3.5 million. So there's some lumpiness in there, really due to the timing of projects and how things flowed through the facility, through the business. We'll take a look at that business, and, again, on an annualized basis, we've been running in the upper teens.

With regard to the nuclear market itself… Obviously the win with Westinghouse… We were very pleased about the facilities down in Georgia and South Carolina. That was a big project for them, a big win for them, and we believe there are some more opportunities to support those new facilities. So on the new facility side, on the new reactor side, there are definitely opportunities, and then, in their historic business, which has been supporting the existing plants, we continue to see very good opportunities there. We think we've enhanced their capabilities to go after some opportunities that might have been more challenging for them in the past, and so, we think the addressable market at their historic business, which is the existing plants, has improved. On top of that, there are some new build opportunities. So we're very encouraged about what we see in Energy Steel, both currently as well as the opportunities going forward.

Joseph Mondillo: Okay. And following the Japanese crisis and the talks with the NRC that increased safety regulation was going to occur, they came out with a bunch of stuff that they were talking about, and that could benefit. Have you guys heard anything further from that? Has anything come about from that?

Jim Lines: Joe, nothing that we could point to directly. If we reflect back to 9/11, we thought it would take 12 to 18 months, like it did last time, before it got into the supply chain. The NRC has drafted certain regulations or recommendations for what the utilities should be looking at. Some of it involves heat transfer, which is what we're involved in, and other controls. We're expecting to see some of that flow into the supply chain in the coming quarters, but I can't point to anything specifically.

Joseph Mondillo: Okay. All right. Thank you.

Jim Lines: You're welcome.

Operator: Thank you. At this time, we have no further questions. I'd like to turn the call back over to our speakers for any closing comments.

Jim Lines: We appreciate your time this morning, and we look forward to updating you during the June/end of the year Conference Call. Thank you.

Operator: Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.